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SUBJECT: NICARAGUA: TEXTILE AND APPAREL SECTOR SUFFERS MAJOR BLOWS

REFS: A) 08 MANAGUA 1213; B) 08 MANAGUA 900; C) 08 MANAGUA 628

Summary

11. (U) Cone Denim announced on March 25 that the company would shutter its denim plant in Nicaragua indefinitely. A company executive reasoned that the supply chain for denim had not fully developed in Central America and, therefore, was unable to weather the decline in demand that has resulted from ongoing economic difficulties in the United States. In a meeting with other Central American leaders, President Ortega criticized CAFTA-DR and suggesting that President Obama should bail out companies in Nicaragua along with those in the United States. In addition to 850 jobs lost at Cone Denim in 2009, industry sources have reported that apparel manufacturers laid off 21,350 Nicaraguans during 2008. End summary.

Lack of Demand Forces Cone Denim to Close

12. (SBU) Steve Maggard, Operations Manager for Cone Denim - Nicaragua, told the CDA on March 25 that the company would shutter its denim plant in Nicaragua indefinitely. Maggard said executives had decided to close the facility because the demand for denim clothing in the United States had fallen sharply. As recently as October 2008, the new plant had grown its orders to run at 75% capacity, more or less the break even point. Since, orders have fallen precipitously.

13. (SBU) For Cone Denim, the fatal blow for its operations in Nicaragua came in February when jeans manufacturer VF closed three facilities in Honduras. According to Maggard, sales to VF in Honduras accounted for 75% of total production. In all, demand for denim in Central America had fallen by 40%. The company has cut its workforce in other countries where it operates, but the facility in Nicaragua was the only one that executives had decided to shutter completely. Maggard reasoned that the supply chain for denim had not fully developed in Central America and, therefore, unable to weather the decline in demand that has resulted from ongoing economic difficulties in the United States.

14. (SBU) Maggard said most of the facility's 850 workers would be laid off during the next two weeks, but a few would stay on for a several months to mothball and later maintain equipment. Maggard reported the company is taking steps to protect its investment -- at a cost of \$100,000 a month -- because plans are to reopen when market conditions improve, which he hoped would be the case in 12 to 18 months. The company is committed to treating its employees

fairly and staying on good terms with the government. Maggard said he and other executives planned to meet with Presidential Delegate for Export Promotion General (Ret.) Alvaro Baltodano to emphasize that point. He told the CDA that he has already established a channel of communication with the Labor Ministry to ensure that severance and other benefits are being paid according to the law.

Ortega: Cone Denim Closure Points to CAFTA-DR Failure

¶5. (U) President Ortega, who helped inaugurate the Cone Denim Plant less than a year ago (Ref C), told other Central American presidents at a summit of the Central American Integration System (SICA) on March 25 that several apparel manufacturers had shut down in Nicaragua last year as a result of economic difficulties. Ortega continued, "Now a U.S. company called Cone Denim, has been forced to suspend operations; at first they said it would only be for two weeks, now they are saying a whole year." These investments, he concluded, were supposed to demonstrate the benefits of CAFTA-DR, but instead they prove Central America should not be dependent on only one market. He explained, "For years we have relied on the United States as our main trading partner, only because they are the largest economy; but now we have seen that they too are vulnerable to economic crisis."

¶6. (U) The idea behind CAFTA was to attract investment, Ortega asserted. He then asked rhetorically, "Who will make up for all the lost jobs now that companies in the United States are facing economic difficulties?" According to Ortega, President Obama should not only bail out U.S. businesses, but also "lend support to Nicaragua and other countries affected by the closure of U.S. companies, leaving our small economies with unemployment."

Apparel Manufacturers Shed 21,350 Jobs in 2008

¶7. (SBU) The National Free Trade Zone Commission (CNZF) reported in February 2000 that employment in apparel operations fell from 66,730 in December 2007 to 50,712 by the end of 2008, a decrease of 16,000 jobs. Alfredo Coronel, Executive Director of the CNZF, attributed the job losses mostly to the departure of Taiwanese apparel manufacturer Nien Hsing. That company left in July 2008, eliminating 14,850 positions. Coronel claims that the setback is only temporary, as Mexican jeans manufacturer C&C plans to ramp up operations and employ as many as 9,000 by the end of 2009.

¶8. (SBU) Dean Garcia, Executive Director of the Nicaraguan Association of Apparel Manufacturers (ANITEC), reported that job losses were higher than the CNZF reported. In addition to Nien Hsing's 14,850 jobs, he told econoff that the following apparel companies shuttered their operations in 2008: Koramsa, with 800 jobs; Annic, with 1,200 jobs; and Sinonica, with 500 jobs. In addition, several other apparel companies, while remaining in business, have shed another 4,000 jobs, for total losses of 21,350 jobs.

¶9. (SBU) Nicaraguan apparel exports to the United States fell from \$968 million in 2007 to \$934 million in 2008, mostly as a result of large declines in the last few months of 2008. Scott Vaughn, President of (ANITEC) and co-owner of apparel manufacturer Rocedes, told econoff that those producers who have weathered the crisis to date will see stable sales in 2009. Given uncertain demand, Vaughn claimed that buyers are unwilling to place orders with Asian manufacturers, which require three months lead time. Instead, they are sourcing from Nicaragua, where the lead time is much shorter. Nonetheless, exports fell from \$73 million in January 2008 to \$57 million in January 2009, a 22% decline.

Competitiveness Issues

¶10. (SBU) Local textile and apparel producers face numerous challenges to remaining competitive suppliers. Garcia reported that lately, as a result of pressure from General Baltodano, Customs Director Eddy Medrano has proven willing to negotiate on issues of importance to the apparel sector. Officials have shown some flexibility on re-exports by streamlining paperwork and lowering fees. They have also eased restrictions on local purchases that had

made it difficult to source locally. Finally, Customs has abandoned efforts to tax waste removed from a free trade zone (Ref B).

¶11. (SBU) Ongoing minimum wage negotiations, by law required every six months, appear likely to produce a two-year schedule for wage increases in free trade zones (Septel). As it stands, wages are slated to increase by 8% in 2009 and another 12% in 2010. Garcia reported that manufacturers are content with this plan, especially after wages had increased by 60% during an 18 month span in 2007-08 (Ref A).

Comment

¶12. (SBU) Cone Denim's closure is a blow to our efforts to tout CAFTA-DR's role in attracting investment in Nicaragua. Nonetheless, CAFTA-DR has put Nicaragua in a better position to weather short-term economic difficulties by opening new markets for new products and strengthening existing industries and institutions. Cone Denim executives do seem genuine in their desire to reopen the plant as soon as possible; they make the point that they made a long-term commitment to Nicaragua and the region. Meanwhile, Ortega is likely to cite the plant closure as "proof" that the current economic downturn, in fact, represents the beginning of the end of capitalism.

SANDERS